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Colombia

Exporter Guide

Annual

2007

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Report Highlights:

In 2006, total Colombian food and agricultural imports were valued at \$2.3 billion. The United States accounted for one third of total imports valued at \$825 million, making Colombia our largest export market in Central and South America. Colombian imports of consumer-ready products grew 16.5 percent in 2006 led by U.S. sales which increased 19.5 percent from \$65.3 million to \$78.0 million. Colombia importers and United States exporters continue to wait for implementation of the United States/Colombian free trade agreement, which would dismantle market barriers, stimulate economic growth and boost trade of food products for both countries.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Bogota [CO1]
[CO]

SECTION I. MARKET OVERVIEW

In 2006, total Colombian food and agricultural imports reached \$2.3 billion. The United States accounted for 36 percent of total agricultural imports valued at \$825 million, making Colombia our largest export market in Central and South America. Agricultural imports from the United States increased 20.5 percent or \$140.5 million in 2006. Although grains represented close to two thirds of imports from the United States, the demand for processed foods and other high-value food products has steadily increased over the past three years. Colombian imports of consumer-ready products grew 16.5 percent in 2006 led by U.S. sales, which grew 19.5 percent from \$65.3 million to \$78.0 million.

Last year, the economy grew at its fastest rate in almost three decades; Colombian GDP posted a remarkable 6.8 percent growth rate, surpassing the expected 5.5 percent growth rate. This increase was driven by a surge in consumer spending, industrial investment and partially boosted by the expectations of the Colombian free trade agreement (CTPA) and continued improvements in security. Foreign Direct investment in the food and beverage sector increased its share from 7.3 percent in 2005 to 59 percent in 2006. Investment in the hotel & restaurant sector increased by 76 percent from \$303 million in 2005 to \$532 million in 2006. Peso revaluation has spurred imports. The peso revaluation was 2.0 percent in 2006, which made U.S. food imports more attractive to local purchasers. So far in 2007, the peso continues to strengthen causing some concern for the Colombian government. Nevertheless, the economy is projected to continue its upward trend and grow over 6 percent in 2007.

Colombia's food industry registered an outstanding 8.7 percent growth in 2006. A continued upward trend (9 -11) is expected during 2007-2008. Colombia is a major producer of consumer-ready products such as dairy products, breakfast cereals, confectionary, baked goods, oils and margarines, and snacks. Colombian consumer demand grew by 5.6 percent in 2006 and is expected to maintain this level in 2007. Household food and beverage consumption represents nearly 33 percent of total consumption expenditures. The noticeably young population (60 of the Colombian population is under 30 years old), is prompt to adopt new trends and products resulting in continued strong demand for food products. The rise in female labor has also stimulated demand for more convenient and healthy food products.

The hypermarket/supermarket sector in Colombia is one of the most modern in Latin America, with sales of \$5.9 billion in 2006, of which \$4.0 billion was in food products. The hotel, restaurant and institutional sector is increasing its role in sales of food and beverages in Colombia of nearly \$2.7 billion in 2006, an increase of 9.4 percent over 2005 sales. The HRI sector in Colombia has great potential for growth driven by increased tourism. Foreign tourism is on the rise representing 23 percent of total hotel occupancy in 2006.

In the hypermarket/supermarket sector in Colombia, there were two significant changes: 1) the purchase of Carulla-Vivero - the number 2 retailer in Colombia –by Almacenes Exito-Casino, the number one retailer in Colombia. In 2006, Casino increased its participation in Carulla-Vivero purchasing the majority of its shares for \$110 million. Casino as a major stockholder of Exito holds 62 percent of the company's shares. Among the bidders for this transaction were Cencosud, Wal-Mart and Carrefour. 2) SABMillers' acquisition of Colombia's main brewery, Bavaria, for a total of \$4.7 billion.

Concentration and consolidation has become a dominant trend in the Colombian retail food sector. Domestic supermarket chains continue seeking strategic alliances with foreign partners in a frantic effort to capture market share. The giants of the market continue

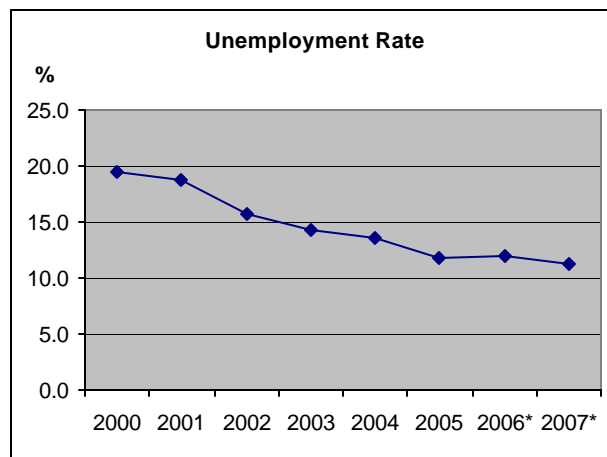
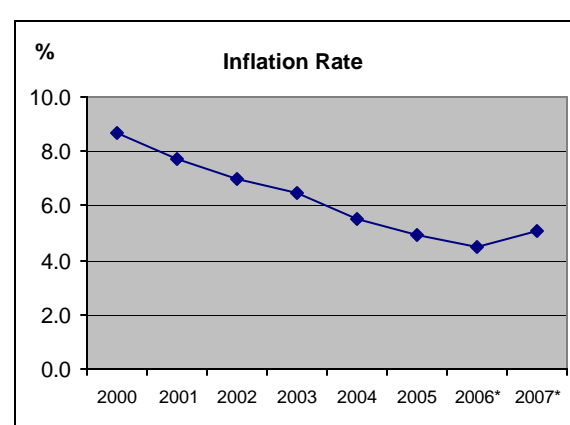
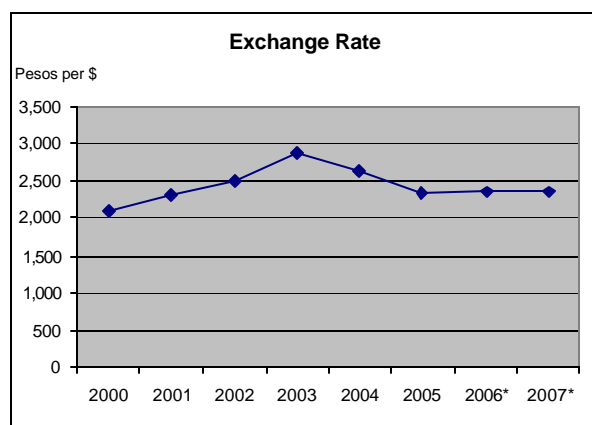
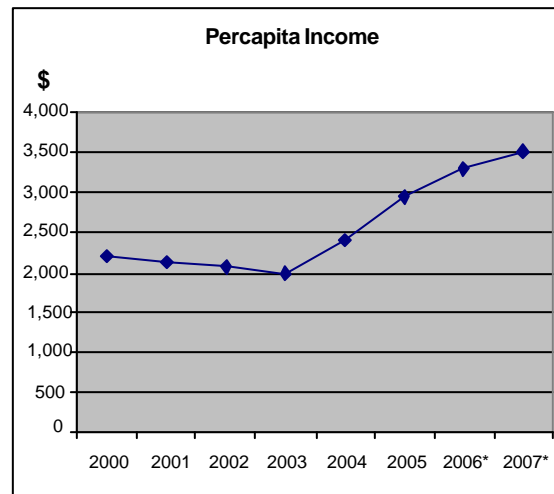
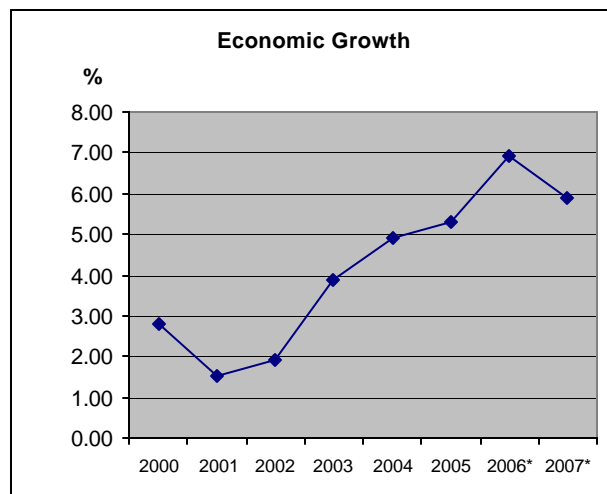
opening new stores. Economic realities and current consumer trends indicate that buying decisions are primarily based on quality and price. Today's consumers are also more health-conscious and selective shoppers. Consumers have benefited from the "price war" among competitors. Although most imports are still handled through agents and distributors, Colombian importers are constantly seeking alternatives to reduce their costs. Large companies import directly, and importers/distributors are increasingly establishing contacts abroad.

On the legislation side, the Government of Colombia has been reviewing its food-related legislation. Basically, the changes respond to the new role of INVIMA as Colombia's food safety and inspection agency. INVIMA stands for the National Institute for the Surveillance of Food and Medicines. INVIMA is under the jurisdiction of the Ministry of Social Protection and is responsible for regulating all food and consumer ready products. The new regulations deal with production, processing, storage, slaughtering, transportation, trade and domestic distribution of meat, meat products and milk and dairy products.

As a member of the Andean Community, Colombia imposes a variable import duty system on more than 140 products, resulting in high and unpredictable duties. Restrictive import licensing requirements block imports of United States products such as chicken parts. Despite GOC efforts, artificially low-priced contraband produces unfair competition and disrupts sales of legally imported products.

Despite current limitations and constraints, Colombia's food and beverage markets are highly competitive and will become much more open once the Colombian free trade agreement (CTPA) is implemented. United States products enjoy an advantage because they are well regarded for their high quality and value. The agreement will provide a major boost to the Colombian economy and imports of food products from the United States.

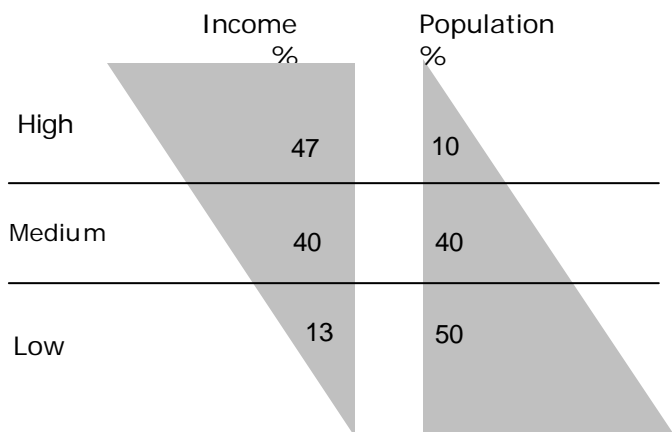
II. ECONOMIC OUTLOOK



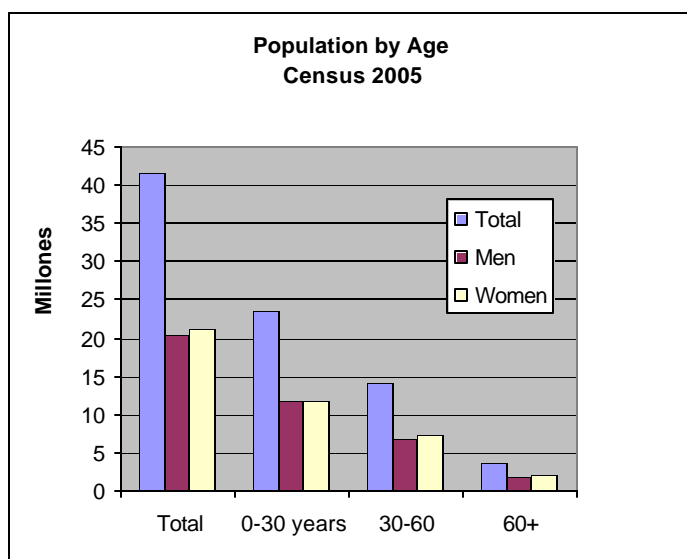
Source: DANE, DNP *Projections

- Signs of continued economic growth are evident in Colombia. The Colombian economy posted a remarkable 6.8 percent growth in 2006. Projections are for 6.6 percent growth in 2007.
- The Colombian peso revalued by 2.0 in 2006 and 3.6 percent in 2005. So far this year, the peso revaluation is well beyond expectations raising concern to the GOC. It is expected to reach 6 percent in 2007.
- The target for the 2007 is a 6.6 percent GDP growth, an inflation rate of 5.1 percent, and a 10 percent unemployment rate, improving the outlook for most sectors.
- Both domestic demand and household consumption are expected to increase by 6.9 percent and 7.3 percent, though still withered by high unemployment.
- Private and public investments are projected to increase by 15 percent and 9.6 percent respectively.
- Should security improve, higher sustainable growth will be achieved.

Income Distribution by Socio-Economic Groups



- Colombia is a rising market of 42 million people and a key business gateway to Latin America.
- Monthly food spending by income group is:
High: \$600-1,000
Middle: \$300-600
Low: less than \$300
- Medium and high-income groups are an attractive market for United States products.
- The medium income group is consuming more value-added products.
- Low income group is a new niche for low-priced good quality processed products.



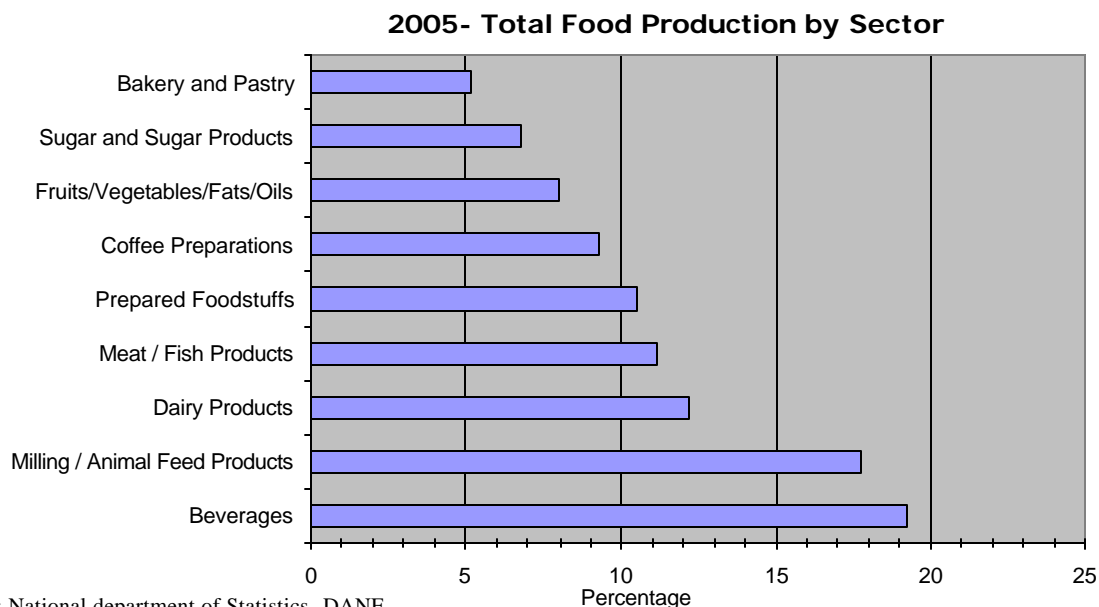
GENDER DISTRIBUTION OF LABOR FORCE IN PERCENT MAIN CITIES

| | 2004 | 2005 | 2006 |
|-------|------|------|------|
| Men | 64.5 | 65.6 | 66.4 |
| Women | 46.2 | 47.6 | 48.6 |
| TOTAL | 53.5 | 54.3 | 55.8 |

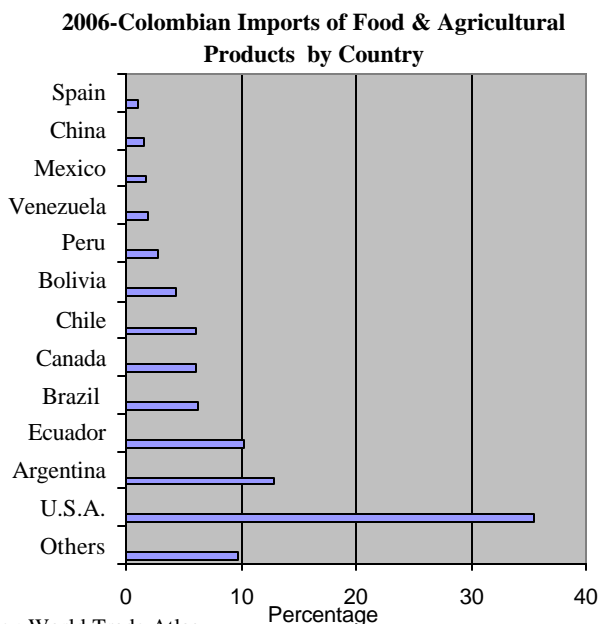
- With 75 percent of population concentrated in 24 urban areas, there is a growing demand for consumer-ready food products and institutional food services.
- Rural consumers generate 25 percent of mass consumption products.
- The rise in female participation in the labour force (30 percent) generates higher demand for convenience food items.
- 60 percent of population is less than 30 years old. Lifestyles are changing favoring consumption trends of new, healthy foods, organic food ingredients and value-added products.
- 35 percent of total home units have more than 4 members.

Source: National Department of Statistics - DANE

Colombian Food Production



- The food industry is one of the largest and most vital sectors in the economy, accounting for 28 percent of industrial production, 29 percent of sales, 22 percent of total employment and 23 percent of number of establishments.
- Industry has state-of-the-art technology and modern communications.
- Colombia is a major producer in many intermediate and consumer-ready categories, such as sauces and spices, dairy products, breakfast cereals, confectioneries, baked goods, poultry feed, pet food, oils and margarines.
- Foreign processing food affiliates account for a large portion of processed food output. Some domestic food manufacturers import products from foreign affiliates, labeled as their brand.
- Store-brand products have increased in the last two years. They captured 4 percent of food sales.
- The food-processing sector depends heavily on imports of ingredients like spices, dry mixes for sauces, modifiers, colorants, preservatives, flavorings, enhancers and thickeners.



- Colombia is the largest market for United States food and agricultural products in Central and South America, and a gateway to other Latin American markets.
- In 2006, total food and agricultural imports were valued at \$2.3 billion. The United States accounted for 36 percent equivalent to \$825 million.
- Consumer-ready products imports in 2005 were \$398 million and \$463 million in 2006, a 16.5 percent increase.
- Major United States competitors are Argentina, Ecuador, Brazil and Canada.

Colombian Food and Agricultural Imports from the United States
2004-2006
Millions of US Dollars

| HS | Product | 2004 | 2005 | 2006 | Growth | Import Duty |
|----|---|-------|-------|-------|------------|------------------|
| | | | | | Rate 06/05 | |
| 02 | Meat and Edible Meat Offals, porkMeat | 4.6 | 7.4 | 5.7 | -24.1 | 20-80% (1)(2)(3) |
| 03 | Fish And Seafood | 0.6 | 0.9 | 1.2 | 38.5 | 20% |
| 04 | Dairy,Eggs,Honey,Etc | 1.8 | 3.9 | 2.9 | -25.6 | 5-15-20% |
| 05 | Products of Animal Origin | 1.7 | 2.1 | 2.3 | 14.6 | 10-70% (1)(3) |
| 06 | Live Trees and Plants,Bulbs, Roots, Cut flowers | 2.7 | 2.2 | 1.9 | -10.5 | 5-10% |
| 07 | Vegetables | 1.6 | 2.3 | 2.4 | 4.3 | 15-60%(4) |
| 08 | Edible Fruit and Nuts | 8.4 | 14.1 | 14.2 | 1.4 | 15% |
| 09 | Spices,Coffee And Tea | 0.2 | 0.3 | 0.6 | 78.3 | 10-15-20% |
| 10 | Grains | 423.7 | 433.7 | 497.0 | 14.7 | 15-80(5) |
| 11 | Milling;Malt;Starch, wheat gluten | 0.3 | 0.4 | 0.4 | -0.2 | 20%(6) |
| 12 | Misc Grain,Seed,Fruit,soybenas | 47.6 | 55.0 | 78.0 | 41.8 | 5-10-15% |
| 13 | Lac, Gums, Resins;Vegetable Saps/Extracts | 5.1 | 5.0 | 5.1 | 2.9 | 5-15% |
| 15 | Animal /vegetable Fats And Oils | 15.6 | 13.8 | 11.3 | -18.6 | 15-20% |
| 16 | Prepared Meat,Fish,Etc | 4.7 | 10.7 | 11.9 | 10.9 | 20% |
| 17 | Sugars and Confectionary Products | 3.9 | 4.9 | 7.0 | 44.5 | 20% |
| 18 | Cocoa and Cocoa Preparations | 1.3 | 1.5 | 1.9 | 26.9 | 15-20% |
| 19 | Cereal Prep., Flour, Starches/Bakery Products | 3.8 | 2.4 | 4.3 | 82.1 | 20%/15% |
| 20 | Preserved Food | 4.8 | 5.5 | 7.4 | 34.7 | 20% |
| 21 | Miscellaneous Edible Preparations | 18.5 | 21.2 | 31.5 | 48.1 | 10-15-20% |
| 22 | Beverages, Spirits & Vinegar | 0.9 | 1.6 | 2.6 | 59.4 | 15-20% |
| 23 | Pet Food, Residues & Waste from Food Industries | 74.3 | 91.2 | 131.3 | 43.9 | 15-20%(7) |
| 52 | Cotton, Cotton yarn / Fabrics | 96.4 | 106.2 | 130.4 | 22.8 | 10-15-20% |

- (1) Import quota for Mercosur of 3200 tons for bovine offals per year pays 20% import duty
- (2) Mercosur 3800 tons for bovine meat per year 20%
- (3) Different from Mercosur 599 tons for bovine offals and 87 tons of bovine meat
- (4) 60% import duty on dry beans.
- (5) Import quota of 75,118 tons for paddy rice. 80% import duty on out-of quota except for sushi rice, which is set at 20%.
- (6) 15% Import duty on barley malt, (7) 20% Import duty on Pet Food

Source: World Trade Atlas, Colombian Harmonized Tariff Schedule

Source: World Trade Atlas

Colombian Consumer- Ready Imports

2004-2006

Millions of US Dollars

| Description | FROM ALL SOURCES | | | | FROM U.S.A | | | |
|--|------------------|----------------|----------------|----------------------|--------------|--------------|--------------|----------------------|
| | 2004 | 2005 | 2006 | %Change - 06/05 - | 2004 | 2005 | 2006 | %Change - 06/05 - |
| Snack Foods | 39.7 | 42.1 | 52.8 | 25.4 | 2.9 | 2.9 | 3.2 | 8.8 |
| Breakfast Cereals | 10.6 | 14.3 | 19.1 | 33.7 | 0.8 | 0.5 | 0.6 | 26.4 |
| Red Meats Prepared, Preserved | 1.9 | 2.4 | 3.6 | 49.9 | 0.9 | 0.7 | 1.2 | 58.0 |
| Poultry Meat | 8.6 | 15.8 | 17.8 | 12.7 | 4.6 | 10.6 | 11.6 | 10.2 |
| Dairy Products | 31.4 | 41.0 | 49.6 | 20.8 | 4.0 | 4.8 | 6.8 | 41.7 |
| Eggs & Products | 1.8 | 3.0 | 1.9 | -36.1 | 0.9 | 1.4 | 0.7 | -49.9 |
| Fresh Fruit | 52.0 | 56.7 | 62.9 | 10.9 | 7.7 | 13.2 | 13.3 | 0.7 |
| Fresh Vegetables | 7.2 | 7.7 | 11.9 | 54.1 | 0.2 | 0.1 | 0.2 | 34.7 |
| Processed Fruit & Vegetables | 35.9 | 37.7 | 44.3 | 17.5 | 2.2 | 2.6 | 3.2 | 23.4 |
| Fruit & Vegetable Juices | 6.3 | 6.1 | 8.0 | 30.0 | 3.3 | 3.7 | 4.9 | 34.2 |
| Edible Tree Nuts | 3.8 | 6.0 | 5.9 | -1.7 | 0.6 | 0.7 | 0.7 | 2.1 |
| Nursery Products/cut flowers | 20.9 | 19.8 | 18.8 | -5.2 | 2.7 | 2.2 | 1.9 | -10.5 |
| Pet Food | 4.6 | 4.9 | 6.6 | 34.5 | 1.7 | 1.8 | 2.0 | 12.3 |
| Wine & Beer | 22.3 | 28.9 | 32.9 | 13.9 | 0.5 | 0.8 | 2.0 | 153.9 |
| Other Consumer Oriented | 90.6 | 111.4 | 127.5 | 14.4 | 12.3 | 19.3 | 25.7 | 32.7 |
| Total Consumer-Ready | 337.6 | 398.0 | 463.5 | 16.5 | 45.3 | 65.3 | 78.0 | 19.5 |
| U.S.A. Share % | 13.4 | 16.4 | 16.8 | | | | | |
| | | | | | | | | |
| Fish & Sea Products | 84.8 | 113.0 | 123.2 | 9.1 | 0.7 | 1.0 | 1.3 | |
| U.S. Share % | 0.8 | 0.9 | 1.1 | | | | | |
| | | | | | | | | |
| Total Food & Agriculture Products | 1,856.4 | 1,929.2 | 2,322.2 | 20.4 | 629.7 | 684.7 | 825.2 | 20.5 |
| U.S.A. Share % | 33.9 | 35.5 | 35.5 | | | | | |

Source: World Trade Atlas

Road Map for Market Entry. Entry Strategy.

- Determine your level of competitiveness based on level of quality, price and service to meet increasing foreign competition.
- Consider innovative marketing strategies when introducing new products. Social marketing strategy is a new approach. Leading supermarkets are deeply involved in social programs with customers' direct participation and alliances with NGOs. Exito has the "Children's Program." Carulla customers are encouraged to donate small change for housing and educational plans, and Carrefour promotes environmental protection and educational programs.
- Include after-sales service and customer support, which are decisive purchasing factors.
- Provide guarantee of consistent supply of products to large stores, hotel chains and institutional markets.
- Marketing strategies must meet the specific needs of the Colombian market. One suggested way to dispatch small orders is to consolidate orders.
- Reinforce activities, such as trade exhibits, product sampling, advertising and campaigns.
- Keep in mind that category managers are key people. They are in a position to offer services difficult to match. Plan personal visits to know your buyer and how imported products are distributed and sold.
- Be aware that Hyper/Supermarkets condition shelf space acceptance to discounts, promotions and/or additional cost.
- Establish direct relations with leading companies to develop a low cost, direct sales approach and to offer products and services.
- Take advantage of domestic food fairs and exhibits using the support provided by the Office of Agricultural Affairs/U.S.Embassy, Bogota. Alimentec is the Colombian trade show for food products and ingredients. Next Alimentec will be in July or August 2008. Colombian companies also attend United States food shows such as the Food and Beverages of the Americas show in Miami, National Restaurant Association Trade Show in Chicago (NRA); Food Marketing Institute Trade Show in Chicago, FMI, Institute of Food and Technology, and Produce Marketing Association, and Fancy Food Show in New York
- Prepare Spanish marketing material that highlight products and services available.

Advantages and Challenges for U.S. Companies Exporting to Colombia's Food Industry

| Advantages | Challenges |
|--|--|
| <ul style="list-style-type: none"> ○ The Colombian food market is dynamic and efficient. ○ Demand in Colombia for processed foods and other high-value food products has grown over the past years ○ United States continues to be the number one trading partner of Colombia. The United States accounts for 36 percent of food and agricultural imports. ○ The CTPA between the United States and Colombia will boost imports of food products from United States. ○ United States products available in the market are considered by the Colombian consumers to be good quality. ○ The Colombian HRI sector has great potential to grow driven by tourism and improvements in purchasing power. ○ Multinational companies established in Colombia are taking advantage of their brand names to position new imported products. ○ Large international fast food franchises are present in the market though they are being displaced by joint ventures. Both face strong domestic competition. ○ Alliances and mergers with foreign companies are broadening the scope of the food business. ○ The remarkably young population has stimulated the expansion of fast food chains and quick service restaurants. ○ Increased female participation in the labor force is generating growing demand for value-added food products and beverages. ○ Colombians are now more health conscious and selective shoppers. The shift from basic to high-quality foods is continuing. Colombians are now selective shoppers. ○ Upper and middle class Colombians are eating out more frequently, devoting 24 percent of their earnings to eating out. ○ The strengthening of the peso continues favoring imports of food products. | <ul style="list-style-type: none"> ○ Product registration can be expensive (from \$796 to \$1,670 per product) and time consuming. ○ Customs clearance is still cumbersome because excessive red-tape but many import /export procedures and customs clearances can be done by internet. ○ Consumption of processed foods is low by international standards and highly sensitive to price. ○ United States products have to be of high quality, price competitive and accompanied by efficient service to face increasing competition from local processing companies. ○ Innovation and new concepts for low-cost products is a must to gain market access. ○ Private brands are expanding rapidly though still incipient and limited. They represent 4 percent of total food sales. ○ Supplies are important and United States companies offering products must guarantee consistent supplies all year round. ○ Competition has intensified. Consumer-ready products are available from around the world, and Colombian companies and foreign affiliates are introducing a variety of new products. ○ The rural area is being explored as a new niche market for mass consumption products such as sauces & spices, snacks, broths & soups, soft drinks and bakery products. ○ Besides the basic duty of 20 percent for most processed food products, the Andean Community assesses a variable duty for a number of products such as pet food, poultry, beef cuts, pork, dry beans and milk powder. ○ Trade agreements with United States competitors make several United States products less competitive. Chile is the main competitor in wine and fresh fruits, with zero duty for most products. ○ The cold chain network is still a limiting factor for future development of the food sector. Total cold storage capacity owned by both public and private sectors is estimated at 175,000 cubic feet. ○ Investment in new outlets continues as part of the effort to penetrate regional markets and attract unattended consumers. |

Section II. Exporter Guide

FOOD LAWS AND IMPORT LICENSING REQUIREMENTS

Food Legislation: The basic piece of legislation dealing with food products and human health in Colombia is Law 9 of January 24, 1979 (www.invima.gov.co under Normatividad then Normatividad de Alimentos). All decrees and regulations produced since then are based on the above-mentioned Law.

The GOC has issued Congressional Law 1122 and Decree 11500 of Ministry of Social Protection modifying some food related legislation. Due to changes in regulatory food safety responsibilities, the GOC under the Ministry of Social Protection has increased INVIMA's inspection and food safety policy making role.

Congressional Law 1122 of January 9, 2007 in article 34, establishes the areas of responsibilities for The National Institute for the Surveillance of Food and Medicines – INVIMA-, The Colombian sanitary regulatory agency (ICA) which is the Ministry of Agriculture's agency responsible for sanitary and phyto-sanitary issues (the equivalent of FSIS and APHIS) and state and regional sanitary authorities. The law rules that:

1. INVIMA is the Colombian food safety and inspection agency entirely responsible for:
(a) risk assessments for food and raw food materials and issuance of sanitary regulations related to food and raw food materials; (b) the inspection, surveillance and control of food production and processing, slaughtering facilities, milk collection and distribution facilities, processing plants, dairy products, and transportation associated with the above mentioned activities; and (c) food safety on trade (imports and exports) of food products and raw food materials in ports, airports, and international borders. These responsibilities used to be with state and regional sanitary authorities. The new role for INVIMA does not preclude the participation of ICA in these matters.
2. Food distribution and commercialization is monitored by the state and regional authorities for compliance of food safety requirement

Article 34 of Decree 11500 of May 4, 2007, issued by the Ministry of Social Protection establishes the following:

1. The technical framework for the National System for the inspection, surveillance and control of meat, meat products and by-products for human consumption. This includes sanitary and food safety requirements for meat production, processing, storage, slaughtering, transportation, commercialization, and foreign trade.
2. ICA's responsible for the inspection, surveillance and animal sanitary conditions at the farm level.
3. INVIMA's responsible for sanitary control and food safety of slaughtering facilities, meat processing and packaging.
4. Local health authorities' responsible for the inspection, surveillance and control of storage, transportation and commercialization of meat, and meat products for human consumption.
5. Regulations for importation of meat, meat products and by-products.

Import Licensing: The Colombian Government maintains control over imports through the Ministry of Commerce, Industry and Tourism (MOCIT). All responsibilities in dealing with

Colombian foreign trade have been transferred to the MOCIT including the issuance of import licenses and the registration of imports.

Because most, if not all, agricultural commodities require permits or have to be approved by another government agency (i.e., the Ministry of Agriculture), they need an import registration at the MOCIT to enter the country.

For food and agricultural products there are two import categories:

1. **Licencia Previa.** Imports that need prior government approval.
2. **Libre.** Imports free of pre-government approval. In this category products can enter the country without restriction. However, products in this category must be registered at the MOCIT.

Participating government agencies:

MINISTRY OF AGRICULTURE/GENERAL – Products subject to import registration in order to restrict imports for non-scientific reasons, either to protect local production from import competition or to regulate imports under tariff-rate quotas. These include products such as poultry parts, and products subject to tariff-rate quotas (beef, bovine offals, white corn, and rice).

INVIMA - Import registration with INVIMA (the equivalent of FDA in the United States) under the jurisdiction of the Ministry of Social Protection applies to most products destined for the final consumer, such as meat and food products for retail sales. While the registration process can sometimes be complicated and costly (particularly for products destined for retail sale), INVIMA has not used this process to prohibit imports.

ICA, Colombian Agricultural Institute, is the Ministry of Agriculture's agency responsible for sanitary and phyto-sanitary issues (the equivalent of FSIS and APHIS). ICA is responsible for products requiring sanitary or phyto-sanitary registration such as meat, fresh fruits, vegetables, dairy products and animal products, including pet food. During the Colombia Trade Promotion Agreement (CTPA) negotiations, Colombia agreed to allow the imports of bovine meat and products without age restrictions. Beef imports were banned under ICA's Resolution 3965 of December 24, 2003, which prohibited imports of live bovine, ovine, goats, etc. and their products due to BSE related restrictions for the United States. Decree 3755 of October, 27, 2006, fulfilled those commitments. However, very little United States beef has been imported as of June, 2007. Colombia has also agreed to allow poultry meat imports from ten states previously banned because of Avian Influence.

Tariff Rates

Most processed foods are assessed a 20 percent ad-valorem import duty. However, some high-value food product imports, such as fresh/chilled and frozen pork and chicken parts, are subject to the Andean Community's price band and reference price system, which can markedly increase the Colombian import duty. The United States Government views the reference price and price band systems applied by Colombia to be inconsistent with Colombia's World Trade Organization obligations. The price band system distorts trade and does not operate in a transparent manner. Colombian processed food imports from Chile and member countries of the Andean Community (Peru, Ecuador and Bolivia) enter duty-free. This, combined with lower transport charges, provides a significant cost advantage to import

from regional suppliers rather than to purchase from the United States. This is particularly true for fresh and processed fruit, wine, and at times for meat.

For those United States products subject to the price band system, import duties are calculated based upon the CIF adjusted floor, ceiling, and reference price levels determined by the Andean Board of Directors. The Andean Community establishes annual ceiling and floor prices every April. The Andean Community adjusts the reference prices every two weeks, per prices recorded by indicative markets for each marked product. If the applicable reference price falls within the floor and ceiling price band, the import duty is calculated by applying the common external tariff rate for the Andean Community to the reference price. When the reference price falls below the floor price, a variable levy, or surcharge, is applied, that is based on the difference between the floor price and the reference price. This surcharge is levied in addition to the applied duty. Conversely, when the reference price exceeds the ceiling price, a reduction is made to the applied duty, based on the difference between the reference and the ceiling prices.

The following example illustrates how Colombia's import duties are calculated for those United States food products subject to the price band system. In the example below, we have calculated Colombia's import duty that would have been assessed on imports of chicken parts (if they are approved for import) arriving at Colombian ports September 16-30, 2007:

| | |
|--------------------------|-----------------|
| Price Band Ceiling Price | \$1,714 per ton |
| Price Band Floor Price | \$1,512 per ton |
| Reference Price | \$1,292 per ton |
| Basic Duty Rate | 20 percent |

Variable Surcharge = (Floor Price - Reference Price) * (1+Basic Duty Rate)/Reference Price

Total Import Duty (52 percent) = Basic Duty Rate (20 percent) + Variable Surcharge (32 percent)

The Total Import Duty is updated and published on the web page of the Andean Community (http://www.comunidadandina.org/politicas/franja_circular.htm) twice a month. The duty paid is the total import duty (52 percent) times the declared import value.

Value-added Tax (VAT)

- Most imports are subject to the VAT (value-added tax).
- VAT is assessed on the CIF value plus import duties.
- The VAT fluctuates between 10 percent and 16 percent.

Law 111 of 2006 aimed to reform the tax system, modified the VAT for a number of food and agriculture products:

- *Imports of several agricultural products, including some feed grains, beet & sugar cane, cocoa powder, glucose, cocoa preparations, bakery products, non-filled pastas and cotton fibers are levied a 10 percent VAT.
- *exempted from VAT fresh, chilled or frozen meats; fresh, chilled or frozen fish; some milk and skim, fresh cheese, milk preparations for infant use, eggs in shell and eggs for hatching.
- VAT for liquors and wine is applied on the customs value plus a 35 percent markup, to a specific levy based on the degree of alcohol.

- Imports of feed grains are levied a VAT of 10 percent.

Pricing Products

- Import duties are quoted ad-valorem on the CIF value of shipments. Retail prices of consumer-ready imported products are generally 60 to 120 percent above FOB prices.
- Freight and insurance costs are 10 to 15 percent of FOB values.
- Other factors affecting import costs and retail price are peso revaluation, inflation, and financing.
- Local manufacturers usually work with a markup varying from 15 to 30 percent and wholesalers from 15 to 20 percent. Profit margins for consumer goods may reach 20 to 30 percent.

Sanitary and Phytosanitary Measures and Other Licensing Requirements

Product Health Registration

All processed retail food items, including products imported in bulk for repackaging for retail use without further processing, must be registered and approved by INVIMA. INVIMA charges a registration fee ranging from \$796.00 for ready-to-be consumed food products to \$1,670.00 for enriched food items per product. According to Decree 3075 of 1997, product registration is not required for:

- Products that are not subject to any transformation, such as grains, fruits, fresh vegetable, honey, etc.
- Products of animal origin, which are not subject to any transformation process.
- Products used as raw materials by the food industry or HRI sector in food preparation.

A transformed product is defined by the GOC as having been subjected to processing that resulted in a change in its internal structure.

INVIMA registration is valid for 10 years but only for the applicant (exporter or importer) and the manufacturer specified in it. Whenever the United States exporter wants to change its Colombian importer, there are two possibilities:

(a) If the United States exporter is the applicant United States exporter must initiate a new registration process, specifying his new importer(s). Afterwards, he may change his importer(s) whenever he deems it advisable. The United States exporter must apply through his legal representative in Colombia or a lawyer.

INVIMA registration is valid only for the specifications (e.g., product description) mentioned in the registration. If another presentation of the same product is to be imported, the registering company needs to inform INVIMA in writing of the new product.

INVIMA registration of processed foods requires: (1) a written document from the manufacturer stating that it manufactures the product; and (2) a certificate of free sale stating that the products are approved for human consumption in the United States. This certificate needs to be issued by a United States government (state, local or federal) health authority. Although not strictly required, INVIMA registration is facilitated if a description of the manufacturing process and a list of the ingredients, including any additives, preservatives, and colorings (dyes), are submitted. Since Colombia implemented The Hague Convention of October 5, 1961 with Law 455 of August 4, 1998, facilitating import

documentation, the above listed documents must carry an "apostille" stamp. The "apostille" stamp fee amounts to \$20 each and it is produced by different authorities in each State, i.e. a Notary or a State Secretary or Under Secretary. This procedure replaced the notarization by the Colombian Embassy or a Consulate in the United States and by the Ministry of Foreign Affairs in Bogota. A translator approved by the Ministry of Foreign Affairs must translate these documents into Spanish.

INVIMA charges a registration fee ranging from \$796.00 to \$1,670.00 per product. After the submission of all required documentation, product registration by INVIMA takes about three working days (although we have received reports that this can take longer). Internet can carry out most of the product registration process. After issuing the product registration, INVIMA analyzes the documents provided by the importer and may request additional information within a given period. Some importers complain that this procedure may result in additional requirements that become non-tariff barriers to trade. Product samples may also be taken from the shelf to conduct laboratory tests.

Sanitary Permit

Products used as raw materials by the food industry or HRI sector in food preparation do not need an INVIMA registration, but they do need a sanitary permit from the Ministry of Agriculture's Colombian Agricultural Institute (ICA). ICA is responsible for the issuance of import sanitary permits for animal products, vegetables, fruits, grains, pet food and agricultural inputs, including seeds and GMO's. The permit details the phyto-sanitary and zoo-sanitary (SPS) import requirements for every shipment. The Colombian importer must first obtain the import permit from ICA, before requesting an import registration from the MOCIT. The importer should supply the exporter with the ICA import permit for submission to USDA. USDA then issues a sanitary export certificate referencing the requirements in ICA's import permit. No shipments should be loaded and transported without the submission of the sanitary permit. Whenever ICA issues new health requirements, the health agency in the United States is notified to see if it can comply with the new requirements. Both FSIS and APHIS place the Colombian sanitary requirements on their respective web pages.

For ICA approval, the product must: (1) come from a USDA inspected facility; (2) be free of disease; (3) be inspected by USDA prior to its shipment and be accompanied by a USDA export health certificate; and (4) be inspected by an ICA veterinarian upon arrival in Colombia.

Registration Requirements

Company/Importer Registration

Every Colombian importer must be registered with the Ministry of Commerce, Industry and Tourism (MOCIT). United States exporters seeking to sell to a Colombian firm should ascertain that the Colombian importer has obtained the legal authority to import agricultural products by completing the MOCIT registration process. Once registered, the importer or importing company enjoys the legal right to import any agricultural product.

Most agricultural imported products require an import registration form (cost 30,000 pesos or about \$14) issued by the MOCIT. Import registration approval takes about two working days.

Labeling and Marking Requirements:

The Government of Colombia (GOC) requires country-of-origin labeling for processed foods. The GOC, however, does not classify frozen vegetables as a processed food and, therefore, no country of origin labeling is required. Also, fresh fruit and vegetables do not require country of origin labeling.

The GOC issued resolution 5109 of December 29, 2005, through the Ministry of Social Protection (previously known as Ministry of Health) establishing labeling requirements for canned/packed food products, ingredients and raw food materials. The Decree includes the listing of food products included in Chapters 2-5, 7-12, and 15-21 of the CUII. The label must contain the following information: food product name, list of ingredients, net content and drained weight, producer name and address, country of origin, lot identification, date marking and instructions for product conservation, instructions for product use, and sanitary registration number. These requirements apply to both domestic and imported canned food products and raw food materials. GOC officials have stated that stickers are admitted on the imported products, but they must contain the information of the product stated in the original label translated into Spanish. The most important information is lot identification number and expiration date.

Imported processed food products that are not destined for further processing must comply with the labeling requirements mentioned above. GOC labeling requirements for processed foods do not address the question of ingredient origin. Therefore, if an imported food item contains ingredients from more than one country, for example, United States and Canadian peas in the same frozen package, the label must only identify the processor's name and address and the country where the product was manufactured. The GOC's product labeling requirements for imported processed foods do not require that the exporter identification information be affixed in a specific part of the package.

Product labeling information on imported processed products must be present at the point of retail sale. The responsibility for this labeling information rests with the importer, not the retailer. Many Colombian importers arrange for this information to be placed on the product by the exporting firm, before it enters Colombia.

For processed products shipped with Spanish labels, the following information must be shown: product name, name and address of importer, name and address of processor, net contents in metric units, list of ingredients, Ministry of Social Protection (INVIMA) registration number, any recommended method of storage/conservation, and product expiration date, if appropriate

Imports that are destined for further processing, such as mechanically deboned chicken, cacao and powdered milk also require country-of-origin labeling. The GOC does not require country-of-origin labeling for imported bulk-packed or consumer-packed fresh fruits and vegetables. The GOC does not require a sticker/label indicating country of origin on individual pieces of fresh fruit. Colombian consumers, therefore, seldom are aware of the origin of imported fruit and vegetables.

Labeling for Food Products.

Food products that are canned, bottled, filled or packed by Colombian marketing agents such as chain stores, supermarkets, delicatessen, etc for further commercialization must be labeled in accordance to this resolution and must contain at least the following information:

1. Name of the product
2. Ingredients list in decreasing order of weight content
3. Net content and drained weight in metric units (i.e., grams, kilograms).
4. Name and address of producer/processor or importer
5. Origin country
6. Lot identification or "L" to identify production date, expiration date, minimum shelf-life, etc.
7. Expiration date and/or the minimum shelf-life in a legible, visible and indelible way.
8. Preservation method or system
9. Sanitary registration number issued by INVIMA

Import Documentation

The following steps must be accomplished in order to carry out an import:

- a) The exporter must provide a pro-forma invoice to the importer. The invoice should contain the specific product name, quantity, weight, and value per unit.
- b) The local importer should verify the Colombian harmonized schedule to see how the product is classified and its import requirements.
- c) Based on the above information, the importer requests a commercial invoice from the exporter, including the currency used for the transaction, FOB or CIF prices, and terms of payment.
- d) Where required, obtain sanitary permit for products from the Ministry of Agriculture's Colombian Agricultural Institute (ICA). This permit details the sanitary import requirements for the corresponding products.
- e) Buy and fill out the Import Registration form. File the Import Registration form with the MOCIT.
- f) Obtain approval from MOCIT for the Import Registration Form or Import License. The Colombian importer must first obtain the import permit from ICA, before requesting an import license from Ministry of Commerce, Industry and Tourism (MOCIT). ICA resolution 414 of February 19, 2002, requires that the sanitary export certificate issued by the exporting country sanitary authority has to be dated later than ICA's import permit. The Colombian importer must provide the sanitary import permit to the U.S. exporter for submission to USDA, before products are shipped. USDA will then issue a sanitary export certificate referencing the listed requirements in ICA's import permit. In the case of meat and meat products, FSIS (Food Safety and Inspection Service) of the USDA maintains the current sanitary requirements and each exporter can take them from there. Both FSIS and APHIS place the Colombian sanitary requirements on their respective Web page. An export health inspection is done upon arrival in Colombia.
- g) Obtain a sanitary registration approval from INVIMA. All domestically produced and imported food products require a sanitary registration approved (INVIMA)
- h) Make arrangements with a financial entity for payment of the importation either through a letter of credit or direct payment.
- i) Ask the exporter to ship goods to a Colombian port along with the packing list and certificate of origin along with the health export certificate. No shipments should be loaded and transported without the submission of the sanitary permit.

j) Request the bill of lading from the transportation firm.

k) Make arrangements, with the SIAs or Customs Intermediary Entities to receive the merchandise. All merchandise must be transferred to either bonded warehouses or free trade zones. Transfers must be done within two days from airport arrival or five days from seaport arrival. Products are allowed a maximum of two months from the arrival date while undergoing customs clearance. A two-month extension is possible. If extension period expires, products are declared abandoned by Customs.

Note: The importer must keep import documents for a period of not less than five (5) years. Documents must be in Spanish.

Patents and Trademarks

- The Superintendence of Industry and Commerce under the MOCIT is in charge of patents and trademarks.
- Protection of patents, trademarks and plant varieties is based on regulations by the Andean Community of Nations (CAN). These are generally consistent with international standards for protecting intellectual property rights, and also govern protection of industrial secrets.
- Patents have a 20-year term of protection.
- Trademark registrations have a ten-year duration and may be renewed for successive ten-year periods.
- Priority rights are granted to the first application for a trademark in an Andean Community country.
- Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection and the Treaty of Patent Cooperation. The Andean Community decision on patent and trademark protection also provides for protection of industrial secrets.

Samples

- As a general rule, samples require the same documents as commercial imports.
- Samples do not require an import license, registration form or import duty payment when Samples are consigned to a designated free trade zone, bonded warehouse or imported on a temporary in-bond basis.
- Food samples can be sent to Colombia for market testing purposes with a previous notification to INVIMA's Director for Food and Alcohol beverages (invimal@invima.gov.co).

Courier and Express Shipments

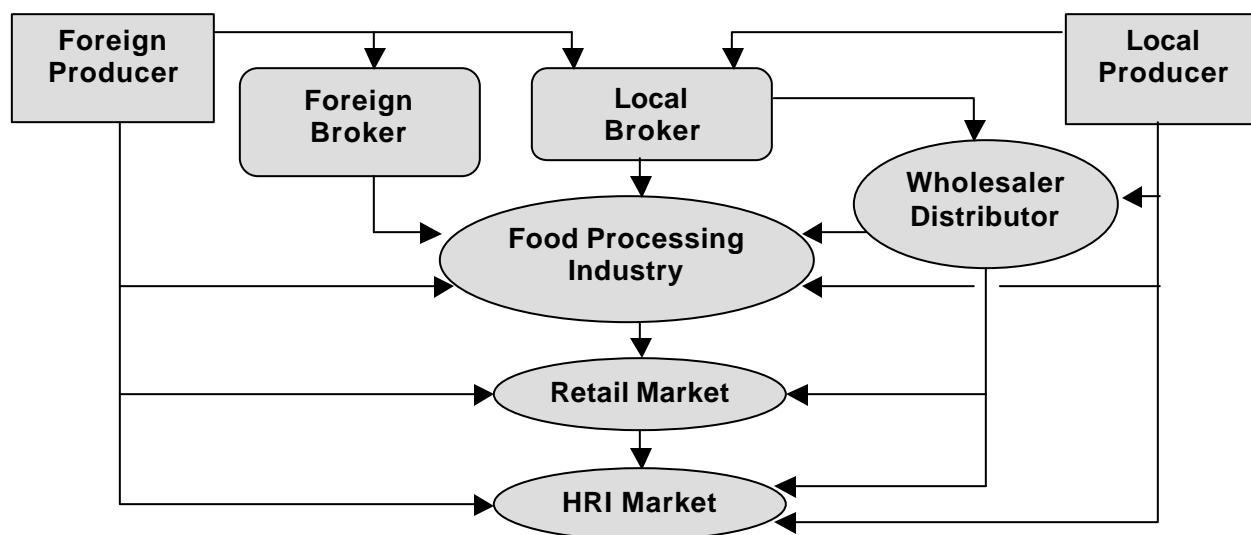
- Courier or express shipments not exceeding \$1,000 in value and 20 Kilograms in weight are freely imported into Colombia.
- Air and surface shipments of products are allowed.
- The number of units of the same product should not exceed 6 units to be considered a sample.
- Express mail or parcel Post are subject to the Colombian import regulations especially related to sanitary certificates.

Distribution and Sales Channels

- The Colombian food industry ranges from state-of-the-art processing food companies to all types of retail outlets, including sophisticated hypermarkets, supermarket chain

stores, department stores, specialty stores, mini-markets, wet markets, cooperatives, street vendors and truckers who engage in door-to-door peddling.

- Radio and TV sales, as well as Internet e-commerce sales are becoming more popular.
- Direct marketing through credit card promotions, flyers, polls, and sales calls to either home or office sites are also popular, including home delivery services. Chain stores and large distributors have their own catalogs for phone, mail orders and internet purchases, which can be paid for with cash, check, or credit card.
- Mini-markets, Mom & Pop stores, wet markets and traditional stores maintain 50 percent market share.
- The number of suppliers has been growing along with those providing private brands.
- Negotiations between the new retail structure and suppliers have changed. Suppliers deal with fewer but stronger retailers.



Joint Ventures/Licensing

- Joint ventures and licensing agreements are increasing in number, value, and importance, which have improved competitiveness. However, franchising agreements are being displaced by joint ventures.
- The Colombian government investment policy encourages foreign investments.

Sales Representative

As a general rule, it is advisable to appoint a local agent or sales representative to help with import procedures, sales promotion and after-sales service, in spite of the fact that Colombians prefer to deal directly with manufacturers or through their export divisions, rather than through outside representatives or brokers.

Importers And Distributors

- The United States traditionally has been Colombia's main trading partner. Colombia is considered a natural market for United States products and technology, because of its proximity.

- The bulk of purchases from the United States are made through well-established local importers, representatives and distributors. However, there are also a large number of small importers of food products that make the market somewhat difficult and uncertain.
- Importers offer a full line of products to meet the domestic demand and to expand market possibilities.
- Competition in the food market has intensified and supply channels have been streamlined. There are now a few large players with strong negotiating and purchasing power. Large numbers of end-users are purchasing directly from suppliers and/or manufacturers abroad, avoiding local representatives.
- Colombian businesses are establishing direct contacts abroad to find new products and services. FAS/Bogota has detected an increasing interest in looking for new food products. This interest has been fueled by the marketing activities carried out by this office.
- Suppliers of large store and hotel chains and institutional markets must provide guarantees of supply availability consistent of products.

Top Colombian Importers and Distributors of High Value and Processed Food

| Importer | Products |
|---|--|
| Industria Nacional de Gaseosas | Compound alcoholic preparations, preparations for beverages manufacturing |
| Frutcom S.A. | Apples, grapes, kiwis |
| Nestle of Colombia | Poultry fat, condensed milk, lactose/whey, tomato sauce, bakery products, biscuits, cacao preparations, cereals. |
| Franchise System de Colombia | Chocolate & cocoa preparations, spices, bakery mixes, sugars. |
| Italcol Occidente | Meat meal, cookie meal ,yellow grease. Oilseed meal. |
| Harinera del Valle | Corn, wheat, sauces, margarine, baked products. |
| Universal Foods | Breakfast cereals, chocolate & cocoa preparations, Bakery mixes |
| Carulla - Vivero | Vitamins, cheese, margarines, dairy spreads, bakery mixes, bakery enhancers, wines. |
| Grasas S..A. | Sunflower oil, bovine animal fats, edible mixture of animal fats/oils of fish, soybean crude oil. |
| Cadbury Adams | Coco oil, vegetable oils, glucose, confectionery |
| Industrias del Maiz | Glucose, sugars, bakery enhancers, mixes and pastas. |
| Colombiana de Comercio S.A. Corbeta Alkosto | Soybean oil, soups, frozen potatoes, ketchup, tomato sauce, pasta, canned tomatoes, bakery mixes |
| Aceites y grasas vegetales, ACEGRASAS | Bakery enhancers, shelled eggs, chocolate blocks, cookies, confectionary |
| Alimentos Polar de Colombia S.A. | Cereals, orange juice, mineral water, apple juice, tomato juice |
| Effem | Confectionery, pet food ingredients. |
| Compania de Galletas Noel | Sauces, vinegar, soy sauce, mustard, homogenized food prep, active yeast. |
| Nacional de Chocolates | Tuna, peanuts, almonds, soups, broths, cocoa, lactose/whey, cereals. |

| | |
|-------------------------------------|--|
| Agrinal/Agribands-Purina | Sunflower seeds, soybean oilcakes, dog/cat food, fish meal. |
| Agrodex | Processed inputs for fast foods, Cheese, poultry/turkey preparations, spices, bakery products, etc. |
| FEDCO | Dietetic foods, baby foods and formula, baked foods, cereals, candy and chocolates, food supplements, salad dressings, fruit juices, etc. |
| Rica Rondo | Frozen pork, edible swine offal, and other edible pork. |
| EMCD Groupe Casino Americas | Beer, wine, chocolates, candy, baking mixes, carbonated beverages, baby foods and formulas, condiments, processed cheese, cooking and salad oils, canned fruits, dried fruits, cereals, jams and jellies, pastas, salad dressings, snack foods, etc. |
| Avidesa Mac Pollo | Corn, fish meal, spices, cookies. |
| Comerfruit Ltda. | Grapefruits, prunes, apples, prunes, grapes, oranges |
| Comestibles Alfa | Vinegar, meat and fish bases, canned foods |
| Congrupo | Food preparations, sauces, pickles, ketchup, vinegars, pasta, confectionary, mustard, soup bases |
| Crepes and Waffels | Canned fruits and vegetables, mustard, cappers and olives |
| Distribuidora de vinos y licores | Wine, whiskey, seasonings, breakfast cereals, canned fish products, cookies, vegetables and grains. |
| Frigorifico de la Costa | Fruit preparations, olives, palm hearts, capers, prunes, fesh fruits, nuts, etc. |
| Meals de Colombia | Dried fruits, Bakery mixes, Albumines |
| Importaciones y Exportaciones Fenix | Fresh fruits. |
| Frigorifico Suizo | Frozen pork, pig/poultry fats, edible offal. |
| Vigomez | Fresh apples, pears, grapes, kiwis. |
| Quala S.A. | Dried onions, ice cream flour, yeast, animal fats. |
| Productos alimenticios El Galpon | Soybean oilcake, corn, animal feed mixes, fish “pellets. |
| Griffith Colombia S.A. | Pastry, vegetables, spices, lactose, isolated proteins, whey. |
| Unilever Andina | Bovine fats, coconut and soybean oil, cereal flours, tomato sauce. |
| Bavaria/SAB Miller | Hop cones, Vegetable saps & extracts, glucose, sugar cane |
| Importaciones y Asesorias Tropi | Sunflower oil, margarines, vegetable saps , pastas |
| Almacenes Exito | Tuna, frozen orange juice, bakery products, pastry, marmalade, cocoa preparations, Green peas, onions, garlic, fresh fruit, dry plums, olive oil, wines, salad dressings, sauces, pastas, fresh fruits, |

Standards

- ICONTEC (Colombian Institute of Technical Standards and Certification), accredited by the Superintendency of Industry and Commerce (SIC) as a certification entity, is responsible for the development of technical standards. SIC performs under the MOCIT.
- ICONTEC is a member of the International Standards Organization (ISO).

Section III. Market Sector Structure and Trends

Hotels and Restaurants and Institutional Sector (HRI)

HRI sector sales of food and beverages in Colombia were estimated at \$2.7 billion dollars in 2006 and are expected to grow 10 percent in 2007. The market has benefited from the arrival of world-class hypermarkets, such as Makro and Carrefour, which are oriented toward serving the food service sector. There are other Colombian hypermarkets such as Alkosto, Carulla-Vivero and Almacenes Exito whose core business are household consumers have developed strategies to serve the food service sector as well. Colombia is experiencing an increase in hypermarket chains and a decrease in the number of HRI sector importer/distributors. Foreign processed food brokers, who are the major suppliers of the Colombian HRI sector, are facing strong competition from domestic producers. Distribution channels for hotels and restaurants have become more efficient, while the system for sales to institutions is still relatively small and undeveloped. Public institutions use very few imported products.

Colombia currently has relatively high duties for processed food products imported for the HRI sector (generally around 20 percent) and strict registration requirements ranging from \$796.00 to \$1,670.00 per product registered. The rising value of the Colombian peso relative to the United States dollar and strong competition in the restaurant sector have, however, made United States food products more attractive to local purchasers. The negotiation of the CTPA with the United States has generated more interest in United States food products.

Changes in consumer taste and consumption patterns and the rise in women participating in the labor force (30 percent) have demanded new market strategies. The remarkably young population, (60 percent of Colombian population is under 30 years old), has new tastes and preferences and is more health-conscious and selective. With rising participation of women in the workforce and greater use of fast food restaurants, demand for new high-value products is increasing. Current consumer trends indicate that buying decisions are increasingly based on quality and price. There is a general perception that United States products are of good quality and value.

The hotel and restaurant sector has potential for growth driven by the tourism sector, though it continues to be affected by persistent internal conflict. The government campaign "live Colombia and travel in it" has fostered in-country tourism through out the country, with a significant portion of the tourists traveling to Cartagena and Santa Marta on the northern coast. Santa Marta is the only tourism destination with large hotels catering exclusively to tourism. Foreign tourism is on the rise representing 23 percent of total hotel occupancy in 2006. Foreign tourism generally concentrates in the historic colonial walled city of Cartagena, while international business travel is generally to Bogotá, Medellin, Cali, Cartagena and Barranquilla. In fact, nearly fifty percent of visitors in Bogota and Medellin came from foreign countries in 2006.

Colombia has a total population of 42 million and the restaurant sector generates an estimated 300,000 direct jobs, while the hotel sector generates 40,000 direct jobs. Quick service and fast food restaurants are expanding rapidly and acquisitions and merges continue. McDonalds/Colombia was acquired by Woods Stanton Consortium and is operating now under the joint venture scheme. Colombian companies such as Kokoriko and Hamburguesas del Corral have now a good piece of the pie while Burger King maintains its interest in opening sales in Colombian. Colombians are getting more inclined to eat in fast food restaurants due to working schedules, prices, and convenience. Most of the fast food restaurants are American franchises, although there are several local fast food restaurants that use American techniques and marketing strategies. Currently, away-from-home meals

represent nearly 24 of food spending. High and upper-middle income groups are interested in foreign cuisine and are eating out more frequently, at least twice a month, devoting 28 percent of food spending to meals outside the home.

Most hotels and restaurants in Colombia buy food products from food importers and retailers specialized in the food service. Fruits and vegetables are mostly bought from wholesalers. Dairy products are bought directly from Colombian dairy plants and distributors. There are ethnic restaurants with specialized Italian, French, Mexican, Cajun, Japanese, Chinese, etc. menus. Those restaurants buy the essential ingredients for their menus from specialized importers. The restaurants that import directly are local restaurants like "Crepes and Waffles" and owners of upscale restaurants. International food chain franchises such as McDonalds and Fridays also import directly.

Food Processing Industry

In Colombia, the food and beverage processing and packaging equipment industry is privately owned, except for a few government distilleries. Sector companies range from small family-owned enterprises to large Colombian, United States and third- country multinationals such as Kellogs, Nestle, Compania Nacional de Chocolates, Noel, etc. The sector is an important component of the national economy that contributes approximately 11 percent to the GDP, and generates about 122,000 direct jobs

National and international competition has influenced the sector, which is recognized by its permanent efforts to maintain state-of-the-art technology, continuous product innovation and its retail presentation. Early this year, Danone joined Alqueria to expand dairy production (\$100 million investment in a new production plant); Cadbury Adams is investing in infrastructure, Jumex (Mexican) is new in juices, isotronic and hydrated beverages; Paulaner (German) is exploring the market for gourmet beer, and Nestle is investing in the expansion of soluble coffee. The most developed sub-sectors are those that process: dairy, sugar, poultry, edible oils and greases, cacao, chocolate, confectionaries and non-alcoholic beverages.

Product lines have diversified and new products have entered the market. Such is the case of the dairy industry introducing lactose free products, the meat industry with low fat products; the baked goods industry with high fiber and whole-wheat products and the oil and fats industry with low cholesterol cooking oils.

Colombia is a major producer in many intermediate and consumer-ready categories such as sauces & spices, dairy products, breakfast cereals, confectioneries, baked goods, poultry feed, pet food, oils and margarines and dairy products.

Top processing companies, such as Colombina, Alpina, Levapan, Industrias del Maiz, Invernacional de Chocolates, etc. successfully compete in international markets. Foreign food processing affiliates provide a large portion of domestic processed food. Some of them have a number of their brand lines produced by affiliates abroad.

Specific products showing stable sales are: fresh/frozen chicken, turkey and pork, mechanically deboned chicken meat, cheese, fresh fruits, breakfast cereals, wine and beer, and assorted snack foods. Feed grains represent the bulk of grain imports. Almost all corn imports are directed to the feed industry, mostly for poultry. The United States is the dominant supplier. Food processing industries rely heavily on imported inputs, such as thickeners, preservatives, modifiers, flavorings, dry mixes for sauces, and spices. Company mergers to improve the efficient use of installed capacity are frequent as well as implementation of investment in expansion plans.

The Retail Food Market Sector

The supermarket sector in Colombia is one of the most modern in Latin America, with preliminary sales estimates of \$5.9 billion in 2006 of which \$4.0 billion was in food products. Fierce competition characterized Colombia's retail sector in 2006, causing shrinkage in profits. Consumers have benefited from the "price war" among competitors. The sector is consolidating a massive structural change initiated in recent years thus reducing the number of key players and has become more concentrated. Strategic alliances, such as Carulla-Vivero and Exito recently took place in a frantic effort to modernize and capture market share.

World-class hypermarkets, such as Makro and Carrefour, made their first incursions into the country in 1998 and continue to expand. Carrefour's marketing strategies led it to a larger market share and a strong position in the industry. In 2003, Carrefour purchased 35 percent of the stocks held by the Grupo Santodomingo and 10 percent of those owned by the Spanish company Sigla, ending up with a 100 percent ownership of the chain in Colombia. Other significant acquisitions, such as the purchase of 28 percent of Carulla by the United States based New Bridge, and of 28.6 percent of Exito by Casino (a French enterprise) have reshaped the sector. Exito had previously bought out the Cadenalco group, one of its largest rivals, and in 2003 acquired the Comfamiliar chain. The latest negotiation is the purchase of 19.8 percent of Carulla-Vivero assets by the number one retailer in Colombia Almacenes Exito. This transaction took place, by agreement, in New York on August 19, 2006.). In 2006, Casino increased its participation in Carulla-Vivero purchasing the majority of its shares (\$110 million). Casino as a major stockholder of Exito holds 62 percent of the company's shares. Olimpica in turn, purchased the Febor chain (former Central Bank employees Fund). Olimpica took advantage of the anti-monopolistic law applied to the Exito-Carrulla-Vivero transaction. Olimpica negotiated 11 previous Carulla-Vivero stores facilities located in strategic commercial locations. Furthermore, the arrival of French giant Carrefour and Holland retailer Makro in Colombia, as well as the sustained strength of local players such as Exito, Carulla, Alkosto, Olimpica, Colsubsidio and Cafam, have unleashed a wave of concentration in 50 percent of the retail market. On the other hand, convenience stores are a new sales venue and are expanding in the form of GasMarts. As a result, supply channels have been rapidly streamlined, and end-users are increasingly establishing contacts abroad. Colombian importers are constantly seeking alternatives to reduce high costs. The new retail market structure in Colombia and the production-consumer chain has forced distributors/suppliers to switch from being passive to active agents.

Despite rapid modernization in the retail sector, traditional Mom 'n Pop stores continued to consolidate as one of the most important distribution channels in the country. They have regained the near 50 percent of the market share they had in the past, at the expense of the big retailers and have been extremely resilient in the face of massive modernization in the sector. The reason for the expansion is due to services, such as credit, small-quantity sales of bulk products, and a proximity that appeals to the vast number of middle and lower-income consumers, services that can not be provided by the large hypermarkets/supermarkets.

Additional factors are expected to contribute to further expansion of the retail food market: market leaders are investing in construction of new modern shopping centers in which super/hypermarkets and cinemas are the cardinal points; sales areas of between 6,000 and 12,000 sq meters, offer a complete range of products and fulfill the increasing demand for one-stop shopping. Investment also includes state of the art technology, tailored logistics to save consumers time and money, remodeling and improvement of service areas.

Competition, Consumer- Ready Food

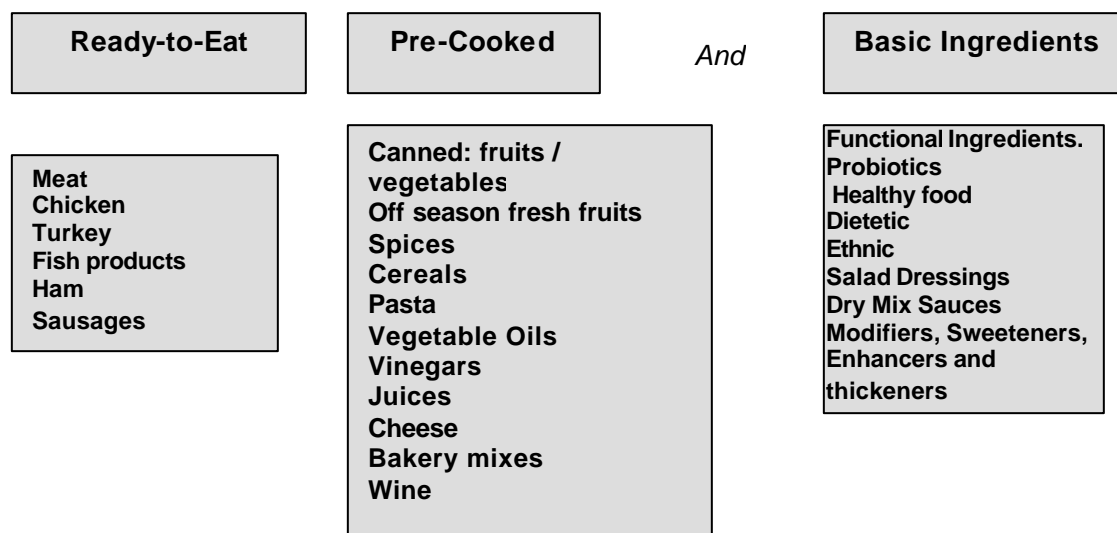
Colombia is a strong competitor in the production of:

| Product | Company |
|---|--|
| Dairy products | Alpina, Colanta, Parmalat, Nestle |
| Breakfast cereals | Kellogg's, Nestle, Quaker |
| Snacks | Frito Lay -Margarita, Savoy Brands, Yupi, Nabisco Royal, Kraft Foods |
| Baked foods | Levapan, Bimbo, Ramo, Comapan |
| Confectionery | Colombina, Noel, Warner Lambert, Nacional de Chocolates, Chiclets Adams, Italo |
| Oils and margarines | Grasas S.A., Unilever, Lloreda, Acegrasas, Gravetal |
| Dry mixes for sauces, mayonnaise, ketchup, mustard, jellies, condiments | Unilever-Disa-Best Foods, California, La Constancia, El Rey, Productora de jugos, Frutos del campo |
| Poultry feed and pet food | Solla, Purina, Finca, Italcol, Contegral, Nestle Pet care, etc. |
| Canned food products | La Constancia, Fruco, Comapan |
| Canned tuna fish | Van cans, Tune |

Best Products Prospects

Colombia is a growing market for value-added food products. Surveyed retailers and producers feel there is significant potential for new products in almost all food product categories. Awareness in Colombia of the importance of **health and wellness** has grown substantially over the past years. This fact will drive the food industry to offer new portfolio of healthy products.

Healthy and ethnic food categories are new and fast growing. Also, wines and gourmet products are penetrating the market with excellent results. Frozen products represent 38 percent of total sales, followed by chilled products at 34 percent and, dry products at 24 percent. Fast food chain restaurants are the largest buyers of frozen products.



Business Practices and Habits

- Colombia has a very sophisticated and highly developed private sector.
- Colombian businessmen have good knowledge of business practices abroad. A large number of them have been educated overseas, especially in the United States.
- They share similar business practice and ethics with United States entrepreneurs.
- Colombians tend to be friendly, straightforward and direct in doing business.
- Consequently, despite Colombia's political and social problems, knowledgeable United States companies have been doing business successfully in Colombia for years.

Travel Warning and Visas

- Business visas are valid for up to three years, can be renewed, and can be used for multiple entries into Colombia for stays of up to six months per visit.
- Although business travelers may enter Colombia on a tourist visa, businessmen traveling under a tourist visa should not sign contracts, because they may be considered invalid and/or non-binding.
- United States business travelers can obtain copies of the travel warning and other up-to-date travel information and publications such as tips for Travelers to Central and South America, via the Internet at http://www.access.gpo.gov/su_docs; or via the Bureau of Consular Affairs Home Page at <http://www.travel.state.gov>

Related Reports

| Report No. | Report Name | Date |
|------------|--------------------------------|----------|
| CO-7002 | Wine market in Colombia | 03-08-07 |
| CO-7003 | Grain and Feed | 05-03-07 |
| CO-7004 | HRI – Food Service Sector | 03-09-07 |
| CO-7012 | Dairy & Products | 06-25-07 |
| CO-7014 | Agricultural Biotechnology | 07-16-07 |
| CO-7015 | Trade Policy Monitoring Report | 07-19-07 |
| CO-7016 | Food Ingredients Seminar | 09-12-07 |
| CO-7017 | FAIRS | 09-26-07 |

For further information, visit the FAS home page at <http://www.fas.usda.gov>.

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